

Press Release

for immediate distribution

Melcor REIT announces third quarter 2019 results

Edmonton, Alberta | October 31, 2019

Highlights

- Rental revenue was up 1% over Q3-2018 at \$17.47 million; remained stable at \$52.89 million year to date
- Net operating income grew 6% over Q3-2018 at \$11.46 million; 3% to \$33.85 million year to date
- Adjusted funds from operations (AFFO) increased 8% to \$4.86 million or \$0.17 per unit in the quarter; decreased 1% to \$14.25 million or \$0.51 per unit year to date
- Occupancy increased to 90%
- Distributions of \$0.05625 per trust unit were paid in July, August and September for a payout ratio of 97%

Melcor REIT (TSX: MR.UN) today announced results for the third quarter ended September 30, 2019. Rental revenue was stable compared to the prior year. Net operating income increased 3% over the prior year to \$33.85 million. AFFO was down 1% due to the increase in tenant incentives and leasing commissions as we work to maintain occupancy under challenging market conditions.

Darin Rayburn, President & CEO of Melcor REIT commented: "I'm pleased to report to you on our third quarter results. We achieved stable revenue and see new stability and positive momentum with leasing activity, which led to improved occupancy at the end of the quarter.

Throughout the quarter, we were again active in our unit buyback program as we believe that our unit price is not reflective of our current or future prospects. Since April 1, 2019, we have purchased and cancelled over 53,000 units. The unit buyback program is part of our capital allocation strategy.

Our pending acquisition is part of our thoughtful, targeted strategy to find great opportunities in our own back yard. Grande Prairie is a new market that we've been looking to enter for an extended period of time. This acquisition will add 283,000 square feet to our portfolio gross leasable area, increase our retail properties to 44% of our overall portfolio, and be immediately accretive to AFFO per Unit.

Over the past few years, we've continually adjusted to respond to market conditions while also focusing on operating efficiency, asset enhancement and tenant retention. The future remains difficult to predict; however, the REIT remains well-positioned to manage efficiently and build value for unitholders in our disciplined, conservative manner."

Q3-2019 Highlights:

Our portfolio performance remained stable through the first nine months of 2019. Market fundamentals remain challenging; however, we have started to see new stability and positive momentum with respect to leasing. We continue to proactively renew existing tenants and pursue new tenants, which resulted in a healthy retention rate of 80.3% at quarter end and overall occupancy of 90.1%. The diversity of our portfolio with respect to both tenant profile and asset class enable the REIT to continue navigating through economic cycles. We are focused on the real estate fundamentals of asset enhancement and property management while conservatively managing our debt.

Highlights of our performance in the third quarter include:

FINANCIAL HIGHLIGHTS

- Revenue was stable over Q3-2018 and Q2-2019, while net operating income (NOI) was up 6% in the quarter and up 1% over Q3-2018 and Q2-2019 due to property acquisitions.
- Net income in the current and comparative periods is significantly impacted by non-cash fair value adjustments on investment properties due to changes in capitalization rates/NOI and Class B LP Units due to changes in the REIT's unit price. Management believes funds from operations (FFO) is a better reflection of our true operating performance. FFO was \$6.57 million or \$0.23 per unit, up 5% from Q3-2018 due to higher NOI. FFO was up 1% over Q2-2019.
- Adjusted funds from operations (AFFO) was \$4.86 million or \$0.17 per unit, up 8% from Q3-2018. The increase was due to higher FFO and lower straight-line rent adjustments. Compared to Q2-2019 AFFO was up 2% due to higher NOI.
- As at September 30, 2019 we have \$1.42 million in cash and \$13.10 million in additional capacity under our revolving credit facility. We conservatively manage our debt.

OPERATING HIGHLIGHTS

- Same-asset NOI was up 3% over Q3-2018 due to higher operating margins across every asset class and region, and stable same-asset occupancy. This is the second quarter in a row that same-asset NOI is up over the prior period.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 124,211 sf (including holdovers) for a retention rate of 80.3% at September 30, 2019. New leasing has been steady across the portfolio with 63,730 sf in new deals commencing to date in 2019 and an additional 48,000 sf committed for future occupancy.
- As part of a planned succession, Andrew Melton stepped down from his position of President and Chief Executive Officer on October 1, 2019 with Darin Rayburn being appointed his successor. We thank Andrew for stepping into the role when needed and look forward to his continued guidance as a member of our Board of Trustees.

CREATING UNITHOLDER VALUE

- We paid distributions of \$0.05625 per trust unit in July, August and September for a quarterly payout ratio of 97% based on AFFO and 72% based on FFO. We have maintained our distribution since inception, paying steady distributions to our unitholders for seventy-six months.
- On April 1, 2019 we commenced a normal course issuer bid (NCIB) which allows the REIT to purchase approximately 5% of our issued and outstanding trust units for cancellation. We believe that our units have been trading in a price range which does not reflect the value of the units in relation to our current and future business prospects. Under the NCIB, we have purchased 47,688 units for \$0.36 million at a weighted average cost of \$7.59 per unit or 77% of book value year to date. Subsequent to the quarter we purchased an additional 5,816 units for \$0.04 million.

SUBSEQUENT EVENT - ACQUISITION & FINANCING

- On October 10, 2019 we announced our intention to acquire a 283,235 sf regional shopping centre in Grande Prairie, Alberta from a third-party for \$54.8 million. This acquisition, expected to close on or about November 12, 2019, increases our portfolio GLA by 10% and is expected to be immediately accretive to AFFO per unit. Several other corporate events were announced simultaneously:
 - Our intention to partially satisfy the purchase price by issuing a 5.10% unsecured convertible debenture to raise \$40 million and complete a private placement of Class B LP Units to Melcor Developments Ltd. for a minimum of \$10 million at an issue price equal to a 1.5% premium to the 5-day volume weighted average price of the REIT's trust units immediately prior to the closing of the acquisition.
 - We intend to redeem our 5.50% unsecured convertible debentures that mature on December 31, 2019 with proceeds from a new mortgage financing of approximately \$35.6 million to be obtained on the acquired property post close. We will provide a formal notice of redemption to holders once the new mortgage is in place.
- On October 29, 2019 we announced the successful issue and sale of the 5.10% unsecured convertible debenture for gross proceeds of \$46.00 million, including \$6.00 million for the exercise of the over-allotment option in full.

Financial Highlights

(\$000s)	Three months ended September 30			Nine months ended September 30		
	2019	2018	△%	2019	2018	△%
Non-standard KPIs						
Net operating income (NOI)	11,460	10,845	6 %	33,854	32,977	3 %
Same-asset NOI	9,876	9,553	3 %	29,371	29,152	1 %
Funds from operations (FFO)	6,570	6,277	5 %	19,579	19,702	(1)%
Adjusted funds from operations (AFFO)	4,860	4,494	8 %	14,253	14,360	(1)%
Adjusted cash flow from operations (ACFO)	4,827	4,438	9 %	14,154	14,192	— %
Rental revenue	17,468	17,283	1 %	52,886	52,837	— %
Income before fair value adjustments	3,189	3,000	6 %	9,366	9,871	(5)%
Fair value adjustment on investment properties ⁽¹⁾	462	(1,746)	nm	(258)	(5,161)	nm
Cash flows from operations	2,979	2,815	6 %	6,842	8,287	(17)%
Distributions to unitholders	2,218	2,225	— %	6,666	6,676	— %
Distributions ⁽²⁾	\$0.17	\$0.17	— %	\$0.51	\$0.51	— %
Per Unit Metrics						
Net income (loss)						
Basic	\$0.18	\$0.23		\$0.36	\$0.83	
Diluted	\$0.18	\$0.14		\$0.36	\$0.44	
Weighted average number of units for net income (000s): ⁽³⁾						
Basic	13,149	13,187	— %	13,169	13,097	1 %
Diluted	13,149	28,086	(53)%	13,169	27,984	(53)%
FFO						
Basic	\$0.23	\$0.22		\$0.70	\$0.70	
Diluted	\$0.23	\$0.22		\$0.69	\$0.70	
Payout ratio	72%	76%		73%	72%	
AFFO						
Basic	\$0.17	\$0.16		\$0.51	\$0.51	
Payout ratio	97%	105%		100%	99%	
Weighted average number of units for FFO & AFFO (000s): ⁽⁴⁾						
Basic	28,048	28,086	— %	28,069	27,984	— %
Diluted	32,775	32,813	— %	32,796	32,711	— %

1. The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.
2. Distributions for the current and comparative periods have been paid out at a rate of \$0.05625 per unit per month.
3. For the purposes of calculating per unit net income the basic weighted average number of units includes Trust Units and the diluted weighted average number of units includes Class B LP Units and convertible debentures, to the extent that their impact is dilutive.
4. For the purposes of calculating per unit FFO and AFFO the basic weighted average number of units includes Trust Units and Class B LP Units. The diluted weighted average number of units includes convertible debentures.

	Sep 30, 2019	Dec 31, 2018	△%
Total assets (\$000s)	726,724	709,603	2 %
Equity (\$000s) ⁽¹⁾	279,931	280,401	— %
Debt (\$000s) ⁽²⁾	405,556	390,918	4 %
Weighted average interest rate on debt	3.81%	3.77%	1%
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	49%	48%	2%
Debt to GBV (maximum threshold - 65%)	57%	56%	2%
Finance costs coverage ratio ⁽³⁾	2.54	2.60	(2)%
Debt service coverage ratio ⁽⁴⁾	2.26	2.30	(2)%

1. Calculated as the sum of trust units and Class B LP Units at their book value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements.
2. Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, liability held for sale (as applicable) and convertible debentures, excluding unamortized discount and transaction costs.
3. Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units and fair value adjustment on derivative instruments. This metrics is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 17 of the MD&A for further discussion and analysis.
4. Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units. This metrics is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 17 of the MD&A for further discussion and analysis.

Operational Highlights

	Sep 30, 2019	Dec 31, 2018	△%
Number of properties	38	37	3 %
Gross leasable area (GLA) (sf)	2,925,738	2,868,901	2 %
Occupancy (weighted by GLA)	90.1%	89.9%	—%
Retention (weighted by GLA)	80.3%	77.4%	4%
Weighted average remaining lease term (years)	4.45	4.67	(5)%
Weighted average base rent (per sf)	\$16.64	\$16.51	1 %

MD&A and Financial Statements

Information included in this press release is a summary of results. This press release should be read in conjunction with the REIT's Q3-2019 quarterly report to unitholders. The REIT's consolidated financial statements and management's discussion and analysis for the three and nine-months ended September 30, 2019 can be found on the REIT's website at www.MelcorREIT.ca or on SEDAR (www.sedar.com).

Conference Call & Webcast

Unitholders and interested parties are invited to join management on a conference call to be held Friday, November 1, 2019 at 11:00 AM ET (9:00 AM MT). Call 416-340-2216 in the Toronto area; 1-800-377-0758 toll free.

The call will also be webcast (listen only) at <http://www.gowebcasting.com/10256>. A replay of the call will be available at the same URL shortly after the call is concluded.

About Melcor REIT

Melcor REIT is an unincorporated, open-ended real estate investment trust. Melcor REIT owns, acquires, manages and leases quality retail, office and industrial income-generating properties in western Canadian markets. Its portfolio is currently made up of interests in 38 properties representing approximately 2.93 million square feet of gross leasable area located across Alberta and in Regina, Saskatchewan; and Kelowna, British Columbia. For more information, please visit www.MelcorREIT.ca.

Non-standard Measures

NOI, FFO, AFFO and ACFO are key measures of performance used by real estate operating companies; however, they are not defined by International Financial Reporting Standards (IFRS), do not have standard meanings and may not be comparable with other industries or income trusts. These non-IFRS measures are defined and discussed in the REIT's MD&A for the quarter ended September 30, 2019, which is available on SEDAR at www.sedar.com.

Forward-looking Statements:

This press release may contain forward-looking information within the meaning of applicable securities legislation, which reflects the REIT's current expectations regarding future events. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the REIT's control, that could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking information. Such risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; the REIT's ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; and interest rate fluctuations. The REIT's objectives and forward-looking statements are based on certain assumptions, including that the general economy remains stable, interest rates remain stable, conditions within the real estate market remain consistent, competition for acquisitions remains consistent with the current climate and that the capital markets continue to provide ready access to equity and/or debt. All forward-looking information in this press release speaks as of the date of this press release. The REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the REIT's filings with securities regulators.

Contact Information:

Nicole Forsythe
Director, Corporate Communications
Tel: 1.855.673.6931
ir@melcorREIT.ca